

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

SEPTEMBER 26, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (SLEMKEWICZ) JS
DIVISION OF ELECTRIC AND GAS (FUTRELL) RS - MF DM
DIVISION OF LEGAL SERVICES (ELIAS) RVE JOJ

RE: DOCKET NO. 961164-EI - FLORIDA POWER & LIGHT COMPANY -
REQUEST TO ESTABLISH RESERVES FOR NUCLEAR REFUELING
OUTAGE INCREMENTAL MAINTENANCE COSTS BY FLORIDA POWER &
LIGHT COMPANY

AGENDA: 10/08/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\961164.RCM
ATTACHMENT NOT AVAILABLE

CASE BACKGROUND

Florida Power & Light Company (FPL) currently operates four nuclear generating units, namely Turkey Point Units 3 and 4, and St. Lucie Units 1 and 2. Normally, each unit is scheduled for a nuclear refueling outage approximately every 18 months on a staggered basis. All maintenance costs during the nuclear refueling outage are currently charged to expense as incurred. Due to variations in the scheduling and duration of the refueling outages, two, three, or four units may have outages during a given year. FPL is requesting that it be allowed to establish a maintenance reserve for each of its nuclear generating units to levelize its annual expenses. (ATTACHMENT)

DOCUMENT NUMBER-DATE

10301 SEP 26 96

FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve FPL's request to establish reserves for the incremental maintenance costs incurred during the refueling outages of its nuclear generating units, effective January 1, 1996?

RECOMMENDATION: Yes, the Commission should approve FPL's request to establish separate reserves for the incremental maintenance costs incurred during the refueling outages of each of its nuclear generating units, effective January 1, 1996. (SLEMKEWICZ)

STAFF ANALYSIS: During a nuclear refueling outage, FPL incurs maintenance costs specifically related to the refueling. These maintenance costs are in addition to the normal O&M expenses associated with the running of the nuclear generating units. Due to the number of nuclear units that FPL operates, the number of refueling outages in a given year can range from two to four. As a result, the nuclear refueling outage expenses can vary widely in any given year. Based on the costs incurred during 1994, the annual expense could range from \$44 million to \$88 million. These types of fluctuations can materially affect the Company's earnings on a year-to-year basis. FPL is requesting that it be authorized to establish an unfunded Nuclear Maintenance Reserve for each of its nuclear units to levelize its annual expenses associated with the maintenance performed during refueling outages.

At the current time, Florida Power Corporation (FPC), the only other Florida utility that owns and operates a nuclear unit, has a refueling and maintenance reserve. This reserve was established in FPC's rate case in Docket No. 820100-EU, Order No. 11628, issued February 17, 1983. Although FPC only has one nuclear unit, its refueling cycle is longer than one year. As a consequence, zero expenses were being recorded in one year, while the total amount of expenses were being recorded during the following year. For ratemaking purposes, this can cause a serious distortion of expenses during a test year. In other words, a test year that included a refueling outage would reflect an unreasonably high level of expenses on an annual basis, and a test year in which no refueling was done would reflect an unusually low level of expenses. The use of a nuclear refueling outage maintenance reserve would levelize the amount of these expenses for both financial and ratemaking purposes.

Because of the potential for distortions created by the current procedure of recording nuclear refueling outage maintenance expenses on a pay-as-you-go basis, Staff recommends that FPL be authorized to establish an unfunded Nuclear Maintenance Reserve for

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each of its nuclear generating units. On a pay-as-you-go basis for 1996, FPL would record an expense of approximately \$43 million for nuclear refueling outage maintenance. Under the accrual method, FPL would charge \$57.2 million to the reserve plus an additional minimum amount of \$7.2 million in amortization as discussed in Issue 2. The additional 1996 expense under the accrual method would be approximately \$21 million. In other years, the accrual amount would be less than the pay-as-you-go amount due to the leveling effect of the accrual methodology.

ISSUE 2: Should the Commission approve FPL's request to annually amortize at least one-fifth of the \$35.8 million attributable to the change in accounting principle beginning January 1, 1996?

RECOMMENDATION: Yes, the Commission should approve FPL's request to annually amortize at least one-fifth of the \$35.8 million attributable to the change in accounting principle beginning January 1, 1996. (SLEMKEWICZ)

STAFF ANALYSIS: As a result of switching from a pay-as-you-go basis to an accrual basis, combined with the staggered refueling cycles of the four nuclear units, the reserve would initially be underaccrued for a portion of those units refueled prior to the establishment of the reserve. Based on the actual end of the prior refueling outages and the best estimate of maintenance costs (\$22 million per unit), the underaccrued amount is \$35.8 million due to the change in accounting principle. FPL has proposed that this amount be amortized over a maximum period of five years, beginning January 1, 1996. FPL would have the discretion to amortize more than one-fifth annually based on its earnings level each year.

Staff recommends that the Commission approve FPL's request to annually amortize at least one-fifth of the \$35.8 million attributable to the change in accounting principle beginning January 1, 1996.

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ISSUE 3: Should the Commission approve FPL's request for waivers from the requirements of Rule 25-6.0143(4)(a) and 25-6.0143(4)(b), Florida Administrative Code?

RECOMMENDATION: Yes, the Commission should approve FPL's request for waivers from the requirements of Rule 25-6.0143(4)(a) and 25-6.0143(4)(b), Florida Administrative Code, to allow the charging of excess costs to expense and to not require that a petition be filed each time the annual accrual amount and reserve level are revised. (SLEMKEWICZ)

STAFF ANALYSIS: Per Rule 25-6.0143(4)(a), F.A.C., the reserve level and annual accrual are to be evaluated during rate proceedings and adjusted as necessary. However, a utility may file a petition to revise the level or accrual outside of a rate proceeding. FPL is requesting that this requirement be waived as it concerns the nuclear refueling reserve. Under its proposal, FPL will be reevaluating both the reserve level and annual accrual amount for each of its units based on the actual expenses incurred subsequent to each refueling outage. This could result in numerous petitions being filed on an annual basis.

Per Rule 25-6.0143(4)(b), F.A.C., expenses are to be charged to the reserve regardless of the existing balance in the reserve. FPL is requesting that any expenses incurred that exceed the level of the reserve be charged directly to expense. In establishing the annual accrual to the reserve, FPL would estimate a "normal" or expected level of expenses associated with the maintenance to be performed during the refueling outage. Due to unforeseen circumstances, such as NRC requirements or problems discovered once the unit is taken off line, the actual expenses incurred could exceed the level of the reserve. If this occurs, the level of the reserve would become negative. This negative amount would then be included in the determination of the revised accrual amount for the next refueling outage, thereby increasing the accrual amount above the estimated cost of the future refueling outage. FPL's request would allow it to charge the "excess" costs directly to expense, rather than creating a negative reserve amount.

In Staff's opinion, a formal review of each revision to the reserve level or annual accrual amount is not necessary. This review can be accomplished through the Commission's earnings surveillance procedures or by specific request in both formal or informal investigations. Because of the relatively unique nature of nuclear refueling outages, Staff is in agreement with FPL's proposal to charge any costs that exceed the reserve level directly to expense. This does not change the total amount of costs that would ultimately be charged to expense. It only alters the timing

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of when those costs are actually recorded as expenses. Therefore, Staff recommends that FPL's request for a waiver from portions of Rule 25-6.0143, F.A.C., be approved.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: Yes, this docket should be closed if no substantially affected person timely files a protest within the 21 day protest period to the Commission's proposed agency action. (ELIAS, SLEMKEWICZ)

STAFF ANALYSIS: Staff recommends that this docket be closed if no substantially affected person files a timely protest.



July 30, 1996

Mr. Timothy Devlin
Director of Auditing and Financial Analysis
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd
Tallahassee, Florida 32399-0850

Re: Reserves for Incremental Maintenance Costs Incurred during Nuclear Refueling Outages

Dear Mr. Devlin:

Florida Power & Light Company (FPL) currently charges all maintenance costs to expense as incurred during nuclear refueling outages (pay-as-you-go accounting). There are normally two or three nuclear refueling outages each year with the exception of 1994 when FPL had four outages (see Attachment - Outages Per Year). During a refueling outage, FPL incurs costs specifically related to the refueling which are in addition to the normal Operation and Maintenance costs, herein referred to as incremental maintenance costs. Incremental maintenance costs incurred during a refueling outage are approximately \$22 million per unit based on the costs incurred during 1994 and 1995. Therefore, incremental maintenance costs incurred in any one year can range from \$44 million to \$88 million. In order to levelize the incremental maintenance costs and to implement accrual accounting, consistent with Statement of Financial Accounting Concept No. 6, FPL is requesting Florida Public Service Commission (FPSC); (1) approval to establish a Nuclear Maintenance Reserve for each nuclear unit (Reserves) effective January 1, 1996, and (2), authorization to deviate from the requirements of Subsections (4)(a) and (b) of Rule 25-6.0143, Florida Administrative Code (FAC), Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4 (Rule) pursuant to Rule 25-6.002, FAC, Application and Scope.

Change in Accounting Principle

FPL proposes to change its accounting, for incremental maintenance costs incurred during a nuclear refueling outage, from pay-as-you-go to accrual accounting. The change from charging incremental maintenance costs to expense as incurred during a refueling outage to accruing those costs prior to

the end of the refueling outage will result in a change in accounting principle under Accounting Principles Board Opinion No. 20, Accounting Changes. The cumulative effect of this change in accounting principle is \$35.8 million (see Attachment - Calculation of the Cumulative Effect of Change in Accounting Principle). The cumulative effect represents the amount that would have been accumulated in the Reserves at January 1, 1996 had accrual accounting always been in effect. FPL proposes to defer the amount of the cumulative effect and amortize at least one-fifth of that amount annually, beginning January 1, 1996.

Method to Establish the Monthly Accrual for the Nuclear Maintenance Reserves

To establish the accrual, historical costs will be used as a basis to estimate the incremental maintenance costs that will be incurred for each unit during a refueling outage. This estimated amount will be divided by the number of months between the end of one refueling outage and the end of the subsequent refueling outage (accrual cycle). If the estimated amounts change during the accrual cycle, the accrual will be adjusted for that change in estimate.

This method is a vehicle to levelize the expenses and to implement accrual accounting for incremental maintenance costs incurred during a nuclear refueling outage. Accrual accounting is based on estimates and, therefore, will not necessarily equate to the actual costs incurred.

Incremental Maintenance Costs to be Charged to the Nuclear Maintenance Reserves

The reserve for each unit will be established in unique subaccounts of Account No. 228.4, Accumulated Miscellaneous Operating Provisions. All incremental maintenance costs incurred during a nuclear refueling outage will be charged to the appropriate reserve for the nuclear unit being refueled. Any difference between the estimated accrual and the actual incremental maintenance costs incurred will be charged/credited to expense; therefore, at the end of an accrual cycle, actual costs will be reflected and the reserve account balance for the unit will be restored to zero for the beginning of the next accrual cycle.

Approval of FPL's request will result in approximately \$57.2 million being accrued to the Reserves in 1996. In addition, at least \$7.2 million will be charged to expense for the 5-year amortization of the cumulative effect of the change in accounting principle. The net result of establishing the Reserves, after actual incremental maintenance costs incurred during 1996 are charged against the Reserves, is an increase in 1996 expense of approximately \$21 million. However, FPL is not requesting an increase in rates.

Request to Deviate from Subsections (4)(a) and (b) of Rule 25-6.0143

Subsection (4)(a) requires Commission approval for a change in the provision level and accrual. Subsection (4)(b) requires that costs which are covered by the accumulative provision accounts shall be charged to that accumulated provision account and not to expense. Charges shall be made to accumulated provision accounts regardless of the balance in those accounts. FPL believes its proposed accounting as set forth in this letter to establish the Reserves is a simplified method to levelize expenses, consistent with accrual accounting, without placing undue burden on the FPSC and FPL. FPL is not requesting a change in the amount of expenses recorded but rather, a change in the timing of when those expenses are recorded. Therefore, FPL is requesting that the FPSC waive these requirements.

If you have any questions concerning this matter please call me at (305) 552-4790.

Sincerely,



Donald L. Babka
Manager Regulatory and Tax Accounting

cc: W. G. Walker, III
Matt Childs

Outages Per Year	
Year	Number of Outages
1994	4
1995	2
1996	2
1997	3
1998	2
1999	3
2000	3

Calculation of the Cumulative Effect of Change in Accounting Principle

Reserve/Unit	End of Prior Outage	Estimated End of Next Outage	Percent of the Outage cost Accrued Prior to 1/1/96	Estimated Average Outage Costs	Estimated Cumulative Effect By Reserve
PSL #2	1/5/96	5/29/97	0.0%	\$22	\$0.0
PTN #3	10/8/95	4/21/97	15.2%	\$22	\$3.3
PSL #1	12/1/94	7/19/96	66.4%	\$22	\$14.6
PTN #4	11/14/94	4/10/96 (1)	80.5%	\$22	\$17.7
Total Cumulative Effect					\$35.8

Calculation of 1996 Accrual

Reserve/Unit	End of Prior Outage	Estimated End of Next Outage	Percent of the Outage cost to be Accrued in 1996	Estimated Average Outage Costs	Estimated Accrual for 1996
PSL #2	1/5/96	5/29/97	70.6%	\$22	\$15.5
PTN #3	10/8/95	4/21/97	64.2%	\$22	\$14.1
PSL #1	12/1/94	7/19/96	33.6%	\$22	\$7.4
PSL #1	7/19/96	5/14/98	25.2%	\$22	\$5.6
PTN #4	11/14/94	4/10/96 (1)	19.5%	\$22	\$4.3
PTN #4	4/10/96 (1)	10/29/97	46.7%	\$22	\$10.3
Total					\$57.2

(1) Actual outage end date.